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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000596

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SUBJECT: THE SARG OPENS A NEW BID ROUND FOR OIL AND NATURAL GAS CONCESSIONS

REF: A. STATE 51180

- [1B.](#) 06 DAMASCUS 4161
- [1C.](#) 06 DAMASCUS 1664

Classified By: CDA Michael H. Corbin for reasons 1.5 b/d

[¶1.](#) (SBU) Summary. The SARG opened seven on-shore blocks for oil and natural gas exploration, but only two have not been previously offered. Royal Dutch Shell and PetroCanada are the largest international oil companies (IOC) involved in the current on-shore round which is set to close on July 12. In addition, the SARG also announced four off-shore blocks that it will present formally to IOC's in London in July and will accept bids for until September 27. The SARG has also announced plans to build three additional oil refineries by [¶2012](#). Refinery projects the SARG claims are currently in the works include a Chinese 70,000 bpd refinery, a Kuwaiti 140,000 bpd refinery, and a Venezuelan/Iranian/SARG joint venture to build a third refinery (140,000 bpd). All of these developments can be seen as part of the SARG's effort to reverse its declining oil production and meet burgeoning demand for oil derivatives. End summary.

[¶2.](#) (SBU) On July 12, bidding will close on seven blocks for on-shore oil and gas exploration in Syria. Five of the seven blocks had been offered in previous bid rounds and are examples of the SARG's weak tendering process which doesn't differentiate between the bids from large, well-known IOCs and bids from unknown speculators looking to make a quick profit by winning a concession and then reselling their interest to a third party. Contacts in the industry have told us that one of the five blocks reoffered in the current round had previously been awarded to the regional subsidiary of a U.S. company, Hunt Oil. The block is being retendered as Hunt failed to deliver its performance bond, according to industry contacts.

[¶3.](#) (C) PetroCanada had bid on two blocks in last year's bid round but was disappointed when both of its blocks were awarded to small independents that offered a higher bid but ultimately were unable to deliver on the commitment they made (ref C). Both blocks of previous interest to PetroCanada are being reoffered in this round and PetroCanada managers have told us they plan to enter a bid on at least one of them in spite of their previous bad experience. PetroCanada's participation in the current bid round can be seen as part of

the company's expanding presence in Syria which started last year (ref B, C). This year, PetroCanada has begun expanding its expat staff to support its exploration and development operations after acquiring Marathon Oil's potentially lucrative oil and natural gas concession in the central part of the country at the end of last year (ref B).

¶4. (C) PetroCanada is also the only IOC that has expressed interest to us in bidding on the four off-shore blocks announced on May 17. Unlike PetroCanada, managers from Shell and Total have commented to us that the off-shore blocks represent too large of an investment for too limited a potential return for the blocks to be of any real interest to them. Managers from both U.S.-based independents still active in Syria, Improved Petroleum Recovery (IPR) and Gulfsands Petroleum, have similarly commented to us that the off-shore blocks hold little interest for them as well. IPR's country manager said that in addition to the high exploration costs associated with the blocks being both deep water and necessitating drilling deep wells, the same geological formation that holds promise off Egypt, Israel, and Lebanon tapers off by the time it reaches Syria so drilling here is subsequently a bigger gamble for a smaller potential deposit. Still, managers from British Dove Energy, which collected the data the SARG is offering to potential bidders, are much more sanguine and assert the seismic data along with the relatively favorable terms offered by the SARG more than compensate for the large up-front investment an IOC would have to make to explore and develop the off-shore blocks. The SARG has announced plans to market the off-shore blocks to IOCs at a conference in London in June.

¶5. (C) Outside of the current bid round, the two IOC majors active in Syria continue to pursue slightly different

DAMASCUS 00000596 002 OF 002

business plans. While Total pursues its interests while maintaining a low profile, Shell very publicly continues to actively pursue a range of new investments in Syria. Shell's CEO visited Syria June 5 and signed an MOU to conduct a comprehensive study of Syria's gas sector. Shell country director, Campbell Kier explained the visit to us as routine and something his CEO tried to do every few years. Others in the industry have not been as dismissive and assert their own CEOs are currently avoiding a visit given Syria's current bad international press. Shell is not expected to submit a bid in the current round but will begin exploration of the two rounds it won in last year's round by the third quarter, according to Keir. Shell remains focused on concluding a ten-year renewal of fields it currently holds in its highly lucrative el-Furat joint venture with the Syrian Petroleum Company (SPC). Shell is also aggressively marketing to the Syrians plans it has to transport through Syria natural gas from wells already drilled but capped in the Akkas field in Iraq. Earlier this year, Shell presented its plan for developing the Akkas gas field in Iraq to SPC managers and SARG officials. Similar to its presentation to the GOI (ref B), the Shell plan proposed to the SARG includes natural gas exports from the Iraqi Akkas field either through the Arab gas pipeline to Turkey or to an LNG facility to be built on Syria's Mediterranean coast.

¶6. (C) Total is not expected to bid in the current round but is pursuing new investments in Syria. Judging the time to now be appropriate, Total managers told us that they have a list of five projects that they have approached the Syrians on ranging from the modest, a refinery upgrade, to the &very ambitious.<sup>8</sup> Total's country manager, Hatem Nuseibeh, declined to name for us his more ambitious plans but did comment that Total is determined to maintain a presence in Syria and to do so it requires new projects. Production in Total's joint venture with the Syrian Petroleum Company (SPC) continues to decline significantly and in a couple of years time would no longer be sufficient to warrant Total's current staff size, which is the minimum necessary, according to Nuseibeh. Nuseibeh felt confident he would be able to

conclude a deal with the Syrians but commented that even SPC managers admit delay is the most common Syrian business strategy.

¶7. (C) In addition to the new bid rounds, the SARG has announced plans to more than double its current 240,000 bpd oil refining capacity by 2012. The three projects currently on the table include a Venezuelan, Iranian, Syrian joint venture to build a 140,000 bpd refinery near an existing refinery in the central Syrian city of Homs; a project being put together and financed by a Kuwaiti investment group called Noor Financial Company for a 140,000 bpd refinery near the center of domestic oil production in the eastern governate of Deir Zour; and a Chinese project to build a 70,000 bpd refinery in the same area. Contacts in the industry are uniformly dismissive of the first two projects.

The Noor refinery project has been criticized as lacking the technical expertise and financing to support such a major undertaking. Nuseibeh from Total, whom the SARG approached a year and a half ago to build a similar size refinery, cautioned that the feasibility of the Chinese project should not be underestimated, however, and opined of the three it was the only one likely to progress.

¶8. (C) Comment. Despite the potentially serious economic consequences associated with Syria's declining oil production, the SARG is making no concerted effort to bring new production on-line. There are a number of exploration efforts on-going that could bring modest amounts of new production on-line in the next two to three years, but nothing so far that holds the potential to reverse the trend.

The SARG is likely to hype its newly opened off-shore sector, but those present in Syria with capacity and expertise in drilling deep off-shore wells, e.g. Total and Shell, are totally dismissive of Syria's potential to host a credible off-shore exploration effort. Unless the SARG reforms its current inept management of the sector, oil production in Syria can safely be expected to continue its gradual decline.

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